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FACT SHEET

Deficit Estimate Falls $56 Billion

CBO'S *Budget and Economic Outlook Update*

September 7, 2004

The Congressional Budget Office [CBO] today released updated fiscal projections for the period of fiscal years 2004-2013.

Relative to CBO's March projections, this report shows a significant improvement in the deficit for fiscal year 2004, resulting from a sharp increase in revenues over the past several months. The report also indicates that if current high rates of government spending continue, it could drive the budget deeper into deficit in coming years.

CBO's Budget Projections
(By fiscal year in billions of dollars)

	2004	2005	2006	2007	2008	2009	2005-2009	2005-2013
Receipts	1,871	2,094	2,279	2,406	2,531	2,673	11,983	28,308
Outlays	2,293	2,442	2,577	2,714	2,849	2,985	13,568	30,601
Deficit	422	348	298	308	318	312	1,584	2,294
Deficit as Share of GDP	3.6	2.8	2.3	2.3	2.2	2.1	2.3	1.5

Key findings from the report:

- ***Deficit Estimate Falls by $56 Billion:*** The $422 billion deficit estimate for 2004 is $56 billion below CBO's previous estimate, and $22 billion below the Administration's Office of Management and Budget's [OMB's] projection of just one month ago.

- ***Higher Revenues Cause Deficit Decline – Even With Accelerated Tax Relief:*** CBO's report shows that the improvement in the budget outlook is almost exclusively the result of higher-than-expected revenue resulting from higher-than-expected income as the economy continues its recovery.
    - Tax receipts are expected to be $54 billion above prior projections in 2004, $44 billion higher in 2005, and $322 billion over the next 10 years.

- ***The Economy is Sound:*** CBO states that "the economy has entered a phase of investment-led growth, in which the number of jobs is rising and real GDP is expanding faster than its trend rate (p.23)."
  - Real GDP growth is expected to be 4.5% for calendar 2004, 4.1% for calendar 2005, and an average of 2.9% over each of the next 10 years.

- ***The Current Rate of Spending Growth is Unsustainable:*** According to CBO, if spending continues in future years at the rate of nominal growth of the economy (4.7% each year), the deficit will be increased by $1.029 trillion dollars in the next 10 years. The situation would be even worse if spending grows faster than the economy, as it has for the past 5 years.
  - CBO's projections assume (as required by law) that the $115 billion provided in 2004 for wartime supplemental spending will continue in each future year, increasing baseline spending by $1.433 trillion over the next 10 years; the increase in spending shown above is in addition to this amount.

- ***A Realistic Baseline Shows Lower Deficits:*** CBO's estimates, as mentioned, assume current law. Correcting for the CBO's assumptions that supplemental spending will be continued permanently and that taxes will be increased substantially when the 2001-2003 tax cuts expire, deficits are lower in the next 5 years, and about the same over 10 years.
  - Under Budget Committee baseline assumptions, the 2005 deficit would be $322 billion, shrinking to $215 billion in 2009.

- ***The Budget Shows Deficit Cut in Half:*** Assuming wartime supplementals are one-time spending and that tax relief does not sunset, CBO's projections show that the deficit will be essentially cut in half over the next five years. OMB's recent budget update showed a similar reduction in its post-policy deficit, which is consistent with the 2005 budget resolution.

- ***Economic Growth and Spending Restraint Work:*** Deficits are lower today than projected six months ago because prior policies are providing their expected benefits. Tax cuts in 2001-2003 have increased the number of jobs in the economy and spurred GDP growth. In fact, real GDP growth over the past year has been one of the fastest in 20 years (4.7%). Holding the line on spending in areas other than defense and homeland security also have kept deficits lower than they would otherwise be.

- ***Deficits Must Be Seen in Perspective.*** The current deficit may be the largest in nominal-dollar terms, but as a share of the economy (as a percentage of GDP) it is not. At 3.6% of GDP, it is well below the 1983 peak of 6% – and it can be reduced to 1.4% of GDP over the next five years under assumptions of continued economic growth accompanied by spending restraint. This is not a justification for the current deficits – but a realistic perspective on the scope of the problem.